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CO-OPERATIVE INSURANCE AND ENDOWMENT SCHEMES.

THE experiment in co-operation, which was begun in 1868 by the thirteen men who formed the nucleus of what is now the Ancient Order of United Workmen, has led not only to organizations of a magnitude not dreamed of, but to organizations of a sort not dreamed of. To enumerate the fraternal and other orders or societies, which have been formed after the fashion of the Ancient Order of United Workmen, for giving life insurance at low cost, would be well-nigh impossible. They have grown up in almost, if not quite, every State in the Union, and their united membership is many more than a million. Some of them admit to membership any candidates of good moral character who are personally acceptable to the order. Others, such as the Odd Fellows' Mutual Relief Associations, limit the membership to persons of particular affiliations or particular trades or localities. Out of the co-operative death-benefit orders have grown the so-called co-operative endowment orders, and the bond and investment companies. The endowment orders and the bond companies have sprung up mainly in Maine, New Hampshire, Massachusetts, Virginia, and West Virginia.

The first thing to impress one who makes a study of these three sorts of organizations is that none of them even pretends to know what it can do for its members. Each organization points to some other, and says: "See what these people have done! What has been done once can be done again." The endowment orders and the bond companies cite the experience of the death-benefit orders, who, in turn, cite the experience of insurance companies. Since experience is evidence only so far as conditions are similar, a right view of the claims of these organizations is possible only when we have a right view of the principles of insurance. It is worth while, then, to look

for a few moments at the method of determining insurance premiums.

It is plain at the outset that the principles applicable to life insurance are different from those applicable to fire and marine insurance. In fire and marine insurance the risk is comparatively constant, in life insurance it is daily increasing. After a certain age, the probability of death increases with each year, and the risk assumed by the insurer becomes greater.

Since life-insurance premiums include a contribution for expenses, called "loading," which is subject to no general ascertainable laws, we are at first concerned with but a part of the premiums,— the contribution for insurance proper. If, as the American experience of mortality would indicate, of 84,000 persons living at the age of thirty-two, 723 will die in one year, the cost of insuring one person at the age of thirty-two for one year for \$1,000 will be \$723,000 (the amount of the death claims) divided by 84,000 (the number of persons insured), or \$8.61. If, however, the premium is paid at the beginning of the year, and the death claims are assumed to be paid at the end of the year, the premium will be a sum which, invested for one year, will yield \$8.61, or, at 4 per cent. interest, \$8.28. This cost of insurance must increase year by year, for the death-rate is constantly increasing. In the second year of insurance — *i.e.*, between the ages of thirty-three and thirty-four — the deaths of the original 84,000 policy-holders will be 726, and the death-claims will be \$726,000. If the original 84,000 policy-holders were, at the age of thirty-two, to procure paid-up policies for two years, they must pay a sum which shall in one year yield \$723,000, or, as we have seen, \$8.28 each, and, in addition, a sum which shall in two years yield \$726,000, or \$7.99 each. In the third year the deaths will be 729; and the sum which will yield \$729,000 in three years is \$7.72 from each. The cost of a paid-up policy for three years would thus be the sum of \$8.28, \$7.99, and \$7.72, the reduction in the amount for each year being due to increased interest earnings and in spite of an increasing death-rate. The cost of a paid-up policy for life would be ascertained, upon the same principle, by adding together the amounts which, if paid at the age of thirty-two by all the persons insured, would yield by

the end of each year the sum which would pay the death-claims becoming due each year, or \$308.71.

Comparatively few men, however, care, or indeed have sufficient means, to purchase paid-up policies for such large amounts as they wish to carry. Most insurance is obtained by the payment of periodical premiums. As in calculating the cost of insurance one must consider the probability of death in each year, so in calculating the annual premium which will equal a single payment of \$308.71 one must take into account the probability that the policy-holder will be alive to make his payment. Since the first annual premium is to be paid at the time that the policy is taken, 84,000 annual premiums will be the first payment. Since the second payment is not to be made until the end of the first year, and since 723 persons will die in the year, the value of the second payment is but 83,277 premiums. Moreover, if interest is at 4 per cent., the present value of the premiums is but 96.15 per cent. of their amount. The present worth of the third and of every subsequent premium may be ascertained in a similar manner; *i.e.*, the present worth so far as determined by the probability that the policy-holder will be alive to make the payment, multiplied by the present worth so far as determined by loss of interest. The annual premium will thus be a sum which, paid for life, will equal in value the single premium determined by the method previously explained. The net annual premium at the age of thirty-two will be \$17.18.

Since the actual cost of insurance, aside from interest earnings, for the first year is but \$8.61, it is evident that much of the first premium of \$17.18 is applicable to a reserve fund. Since the death-claims increase in number in the later years, owing to a higher death-rate, the annual payments, if uniform for life, must exceed the cost of insurance in the earlier years. Each year the amount of the premium which is applicable to the reserve fund is smaller than in the preceding year, and in the later years the premium paid is actually less than the cost. If, however, the death-rate corresponds to that upon which the premiums were based, the reserve fund just suffices to pay every death-claim at maturity.

Since there is always some reserve belonging to the policy of

every living policy-holder, the question has arisen, What shall be done with the reserve belonging to the policies of those who fail to pay their premiums? The various answers to this question give rise to the several systems of insurance known as the "tontine" and the "non-forfeitable policy," and that in which the stockholders get the benefit of lapses. When one realizes that the part of the annual premium which is applicable to the reserve fund is paid for future insurance alone,—*i.e.*, insurance which the policy-holder does not receive, if his policy terminates when he fails to pay his premium,—it is plain that the reserve ought in some way to be applied to his sole benefit, and cannot in strict justice be divided among the policy-holders, as under the tontine system, nor among the stockholders, as in the pure stock companies. It is not true, moreover, that the withdrawal of any policy-holder is an injury to those who remain,—unless, indeed, the number insured is so small that the death-rate is by the withdrawal raised above the average; for, whether the numbers be few or many, the premiums of each year added to the reserve from previous years will pay every policy at the death of the holder. The most enlightened opinion seems to favor the system of granting to those policy-holders who fail to pay their premiums so much paid up insurance for life as the sum on deposit with the company will procure. This is perfect justice. Many companies give the holder the option of drawing the present cash value of his deposit (less a surrender charge); and some State laws require that the option be given. Since, too, the insurance companies can afford to give full cash value (less expenses) for surrendered policies,—though they cannot be fairly asked to do so, since insurance is their business,—it is true that they can stop business at any time without failure to meet any liability. It is equally true, of course, that a company can continue old policies and meet every liability at maturity, even though no new business of any sort is taken.

The methods of the co-operative death-benefit orders and associations are of the simplest possible nature. The members of an order—or association—pledge themselves to contribute towards a benefit for the wife, children, or other beneficia-

ries of deceased members a specified sum of money. If, however, the members are so many that one assessment upon each member yields more than a fixed amount the balance of the assessment remains in the treasury of the order and is applied towards the payment of succeeding death-claims. Expenses are generally provided for by a per capita tax, and by profits realized from the sale of supplies to branch lodges. Some orders provide additional benefits in case of sickness.

Since assessments are called only to meet accruing liabilities,—*i.e.*, to meet the actual cost of insurance month by month,—no estimates of any sort are necessary. The payments are made for actual happenings, and not for estimated happenings. Manifestly, however, the system is in one respect so simple as to work injustice. If A, who joins the order at the age of forty-four, pays no greater sum on each assessment than B, who joins at twenty-five, the probability is that the cost of B's insurance will have been, at his death, one and one-half times the cost of A's, at A's death; for the expectation of life at twenty-five is one and one-half times that at forty-four. The inequality arising from uniform assessments has therefore given rise to graduated scales, though many orders still maintain uniformity.

Assessment insurance—and it may perhaps best be mentioned here that assessment insurance is offered by a few purely business companies in competition with the co-operative assessment orders—seems to have the advantage over premium insurance that, if the death-rate is below the average, the policy-holders get the benefit through a reduction in the number of assessments. This gain, however, is not peculiar to assessment insurance; for the purely mutual companies divide the gain among their policy-holders.

The most obvious difference between assessment orders and premium companies is in their attitudes towards reserve funds. The assessment orders do not seek a level rate of annual contributions. They ask their members to pay in each year just what the insurance in each year costs. They have found that the death-rate of insurance companies and in fraternal orders is about 10 in 1,000, and they reason that therefore \$10 can insure \$1,000 one year. The assessment orders may be said

to have sprung out of protest against life insurance premiums of from \$20 to \$50,—seemingly from \$10 to \$40 in excess of the cost. Many of the orders seem to look upon reserve funds as gratuities from policy-holders to stockholders or to officers. They point to the expensive buildings erected by rich premium companies, and seem to wish people to believe that the buildings are of no benefit to policy-holders. They seem unaware of the fact that the reserve fund is all paid ultimately to policy-holders, and that no better investment can be made of it by the companies than in costly buildings. It would be possible for any insurance company to abandon the reserve fund without loss or gain to itself or to policy-holders. Since the purpose of the reserve fund is to equalize payments for life, and to prevent the necessity of increasing the premiums with each year of life,—thus making them heaviest when the policy-holder would be least able to bear them,—a scale of increasing premiums would obviate all necessity for a reserve.

The difference between assessment orders and premium companies is, however, more fundamental than this. The orders deny the necessity for either a reserve fund or increasing premiums. They hope to keep the cost of insurance for every year down at the level of the early years: they strive to bring in so many new members each year that, though the death-rate among the members of long standing is increasing, the death-rate of the whole body shall be kept down by the low rate among the newer members. It is true that as long as the death-rate can be kept down at 10 in 1,000, so long will payments of \$10 for every \$1,000 of insurance meet all liabilities.

This risk of ability to increase the number of policies rapidly, year after year, the premium companies are unwilling to take: they ask each policy-holder to pay as premiums a sum which shall insure his individual life; and they know that, whether the number of their policies increases or decreases, their assets will meet their liabilities at maturity, unless, indeed, some calamity, such as may happen in any business, destroys some of the assets. But the risk of ability to increase membership the assessment organizations deliberately

assume. They desire many members, in order that there may be many to contribute towards the payment of death-claims; but they see that new members—*i.e.*, new resources—bring new liabilities in the same proportion. If, therefore, the cost of insurance is to be kept low, the new liabilities of each year must be met by new resources, which, in turn, bring new liabilities for succeeding years. The first cessation of growth will bring a rapid rise in the cost of insurance; for the liabilities incurred in previous years will go on increasing,—because of increasing death-rate,—but must be met by resources less rapidly growing.

It seems at first sight as if this increasing cost were not a serious matter, for after a man has had very cheap insurance for several years he can afford to bear an increased cost. If, however, the membership of an order declines,—*i.e.*, if more die in each year than are added,—the rise in cost will much more than counterbalance the original saving. Though all, on joining an order, pledge themselves for the benefit of each other, those who die early pay nothing for the benefit of those who survive them. If no new members are added, the old members who have contributed for the beneficiaries of those who have died must now contribute all that is contributed for their own beneficiaries. In the premium companies, on the other hand, each policy-holder, as we have seen, pays each year an extra sum proportioned to the improbability of his living and making the later payments; and the contributions for this purpose of those who die early are available to reduce the cost—which would otherwise be excessive—for those who die late.

That the fraternal orders recognize the necessity for increased membership is shown by the frequency of their appeals to members to be active in securing new members. The Supreme Secretary of the United Order of the Pilgrim Fathers, in a report for 1890, said:—

In 1884 our gain was not equal to the occasion, and we felt its effects in 1885. We made the proper gain in 1887 and 1888, and we held the assessments to an average of ten and a fraction each year for five years. In these years our gain was from 20 to 23 per cent., and our assessments ran in a parallel ratio. In 1889 our proper gain should have been 2,335,

or 23 per cent. It was 1,643, or 17 per cent. The effects of this reduction were not appreciably felt in 1889, but will be felt in 1890 and after years. . . . The cause can be removed and recovery follow, and two words comprise the remedy,—“individual effort.” . . . I have thus noted where we fell short and advised a sure remedy; but there is another extreme, and there lies something to be avoided. A too rapid growth in any one year adds to the necessity for a greater growth in every coming year. We want in 1890 a net increase of twenty-six hundred members. Less than that will be a source of danger: largely in excess of that will do us no good, but will work a positive injury and greatly add to the necessities of the future.*

No one can say whether the assessment insurance organizations can by the growth of membership so far keep down their death-rates as to furnish insurance ultimately cheaper than the estimates of the premium companies. In the past they have not kept the cost from rising. The table below will show what their experience has been. Since the number of assessments, the amount of the assessments per capita, and the death-rate are all indicative of the same thing, we can use whichever set of figures is most readily obtainable from official sources:—

	Ancient Order of United Workmen. Death-rate.†	Royal Arcanum. Death-rate.‡	Knights and Ladies of Honor. Cost, Age, 35-40.§	Home Circle. Number of Assessments.	American Legion of Honor. Death-rate.¶
1880	7.9	4.3	\$8.55	0	1.6
1882	8.2	6.4	9.90	3	6.5
1884	7.8	6.8	9.00	10	9.1
1886	8.9	7.4	10.80	11	9.9
1888	9.7	7.7	10.80	15	13.1
1890		8.3	11.25		13.1

These five organizations have been chosen because in numbers and in membership they represent different conditions.

It is not safe to say, because the orders never have gained in numbers sufficiently to keep down the cost, that they never will; but it is safe to say, since new fraternities are continually coming into the field and entering into competition for new members, that they are not likely to be able ultimately to

* *Report of the Supreme Secretary*, April 2, 1890, p. 16.

† *Proceedings of the Supreme Lodge*, 1889, p. 58.

‡ *Official Circular* of August 1, 1890, p. 13; and *Massachusetts Insurance Report*, 1890, II., lviii.

§ *Deputies' Statistical Chart*, No. 2, p. 3.

|| *Circular* of 1890, p. 8.

¶ *Circular* of 1891, p. 3.

furnish insurance much cheaper than the premium companies, except, of course, so far as they make a saving in expenses. If they succeed in furnishing much cheaper insurance, it will be by continuing business to the end of the world, always increasing in numbers, and because the increasing numbers have made it possible to anticipate the great gain which will come at the end of the world from the volume of escaped liabilities.

In the direction of expenses, however, vast opportunities are open for fraternal orders. They can greatly reduce the "loading" of premiums,—the contributions for expenses. Even here there are not so great possibilities as the orders seem to believe. One of their favorite points of attack upon life companies is the salaries of presidents. Nor is the fact strange. It is almost impossible for a man who can earn at the utmost but six or seven hundred dollars a year to conceive that any man can earn for his employer fifty, twenty, or even ten thousand a year. He cannot realize the value of great business ability in economizing forces, discovering good investments, and detecting unsafe enterprises. If such prejudices can be overcome, the possibilities of cheap insurance are great, and that, too, without resort to any scheme which trusts to increased membership and perpetual corporate existence for success. The total disbursements of all premium life insurance companies doing business in Massachusetts in 1890 were \$123,200,000, of which \$38,300,000 was of the nature of expenses and \$84,500,000 was paid in one way or another to policy-holders.* The amount paid otherwise than to policy-holders was thus 45 per cent. of the amount paid to policy-holders. The expenses of the Supreme Council of the American Legion of Honor, a large fraternal death-benefit order, were in two years \$94,000, and its disbursements to members were more than \$5,000,000.† The percentage of expense to benefits is thus less than two; but, since the Supreme Council does not bear all of the expenses,—though it receives and pays all benefit funds,—the ratio is not a fair representation of the actual

* *Report of Insurance Commissioner of Massachusetts*, 1891, Part II., pp. xxii. and xxiii.

† *Proceedings of Supreme Council*, 1889, pp. 28, 31, and 159.

cost. Even if it were quadrupled or taken tenfold, however, it would still teach something of the possible savings from co-operation. All commissions to agents—a very large item—and many clerical expenses could be saved; for every member is an agent, and the officers of subordinate lodges can do much of the work for which any business company now sustains a corps of clerks.

The endowment orders claim fellowship with the death-benefit orders; but, although many endowment orders were instituted by prominent members of death-benefit orders, the National Fraternal Congress, a conference of delegates from death-benefit orders, has year after year refused to indorse the endowment plan. In 1890 the constitution of the Congress was amended so as to read: "No Fraternal Society, Order, or Association, shall be entitled to representation in this Congress unless . . . the purposes are confined to visitation of the sick, relief of distress, burial of the dead, protection of widows and orphans, education of the orphan, payment of benefit for temporary or physical disability or death. . . . We repudiate the speculative Societies, whose brief aim is to pay sums of money to members during life, without regard to distress or physical disability; and declare that the aims of such Societies are entirely opposed to the principles upon which the Fraternal Beneficiary Societies are founded."* Since both systems aim at ultimately giving every member whose claim is paid much more than he contributed, and since both systems will be able to do this only if they keep on growing until the end of the world and thus avoid the necessity of paying the multitudes who will then be members, the claim to fellowship is not wholly groundless.

The endowment orders generally promise to pay a specified sum of money at a specified time, provided that one assessment upon the members will yield that sum: otherwise the sum to be paid does not exceed one assessment.† Since the payment of endowments is met by levying so many assessments as may be necessary, the system resembles the death-

* *Journal of Proceedings*, 1890, pp. 56 and 57.

† For extracts from a typical constitution, see Appendix A, p. 487.

benefit system. Indeed, as if the systems were in every respect similar, the endowment orders cite the amounts paid by deceased members of death-benefit orders as proof of the cost of endowments. If, it is said, the death-benefit orders have paid the families of all deceased members \$1,000 for \$100 after an average membership of five years, it is proof that endowment orders can pay \$1,000 in endowments in five years at about the same cost. It does not seem to occur to those who advance this argument that those who lived longer than five years have paid the insurance of those who died, and that, if all claims had matured in five years,—as those of five-year endowment orders will,—the orders would have gone into utterly disgraceful bankruptcy.

The endowment orders have three sources of income besides taxes and assessments for expenses. The first is "lapses." Many who join the orders and pay a few assessments fail to meet further calls: what they have paid to the orders is forfeited, and is applied to the payment of maturing certificates. Upon the justice of such a plan little can be said. If a man is so careless that he neglects to pay his assessments, it may be right that he should lose all that he has paid; but whether inability, temporary or otherwise, should work such severe forfeiture is a more serious question. Some orders, believing that forfeiture is too severe, have established a cash surrender value for certificates which have been in force a reasonable length of time. Such payment, however, withdraws a large part of the gain arising from lapses, and by so much reduces the strength of the argument that lapses contribute to the immense gains realized upon endowment certificates. Even those orders which refund nothing can realize but little profit from lapses. The lapses in three of the largest five-year orders of Massachusetts in 1890 averaged less than 7 per cent. of the total membership at the end of the year.* In the three largest seven-year orders the average lapse-rate was $6\frac{1}{2}$ per cent. No one-year orders had been in existence a year on Dec. 31, 1890; but for such time as they had been in existence the lapse-rate in the seven largest orders averaged 2 per cent. Moreover,

* *Reports* of the orders to the Insurance Commissioner of Massachusetts.

since the lapses occur chiefly in the earlier months of membership,—when the member has little to lose,—the gain arising from lapses is not fairly indicated by the lapse-rate. Since, too, most of the orders are young and have practically none but new members, the lapse-rate is probably above the normal. In the order of the Iron Hall, the oldest and largest order,—organized in 1881, and which may be said to have settled down to a normal condition,—the lapse-rate in 1890 was $5\frac{2}{3}$ per cent.* The same rate for seven years—the term of maturity—would mean that 38 per cent. of all who join would forfeit something by withdrawal. If one-half of the lapses, or 19 per cent., occurred in the first year, 8 per cent. in the second, 7 per cent. in the third, 4 per cent. in the fourth, 3 per cent. in the fifth, 2 per cent. in the sixth, and 1 per cent. in the seventh,—which seems not an unreasonable distribution,—the benefit to the order will be as if 15 per cent. of all the members, after paying all of the assessments, lost their claims to endowments. The gain from lapses would then be 15 per cent.

Another item of resource for the orders is interest. They pay benefits in case of sickness with the understanding that the amount of benefits paid shall be deducted from the face of the endowment certificate at maturity; and most of the orders charge 6 per cent. interest on these advances. In addition, most of the orders establish a reserve fund for the ultimate payment of endowments, and invest this fund in securities. The interest arising from these investments must be added to their resources.

In this connection, too, it may be well to say that there is little ground for the popular impression that the Massachusetts law grants special protection to the holders of certificates which mature in the distant future. The law provides that whatever reserve the orders keep shall be deposited with the State Treasurer. No law requires that the orders shall keep any reserve. They can at any time withdraw the reserve and apply it towards the payment of any endowment certificates. Some orders have accumulated and disposed of large reserves, and will probably continue to accumulate and disburse reserve

* *Report of the order to the Insurance Commissioner of Massachusetts.*

funds as fast as certificates mature. With the exception of provision for expenses and death-benefits,—and some orders pay death-benefits,—the law allows assessments only under two conditions: for sick-benefits, with an additional sum of like amount or less for the reserve fund; and, within three months of the maturity of certificates, so much as may be necessary for their payment,—all of which may be deposited in the reserve fund.* It is thus plain that the amount that any order can levy for its reserve fund, previous to three months from the maturity of its next certificate, is limited by its sick-benefit claims. It cannot, then, often accumulate a heavy reserve; and, unless it is willing to levy heavy assessments within three months of the maturity of certificates, it may be obliged to use its reserve fund almost as fast as it is accumulated.

The third source of profit to the orders is new membership. It is obvious that, if twenty men are assessed in order that endowments of \$1,000 may be paid to ten of their own number, the cost of the endowments to those who receive them will be but \$500, since \$500 from each of twenty men will yield \$10,000. Upon the ability of the endowment orders to increase their membership without end depends largely their ability to furnish cheap endowments. They see in the present and future population of the world potentially assessable members; and, though they see that new members bring increased liabilities, they look far down the ages and see in the last day an escape from all outstanding liabilities. Since none will care for his endowment at the last day, the last certificates need never be provided for, and the savings so made may be so far anticipated as to give cheap endowments now.

The competition for membership is so strong that there is even more doubt of the ability of the endowment orders to keep the increase up at the required rate than there is of the ability of the death-benefit orders. Between January 1 and December 31, 1890, thirty-four endowment orders began business under Massachusetts charters; and yet the legislature had forbidden the issue of new charters after May 28.† Since

* Chap. 429, Acts of 1888, as amended by Chap. 341, Acts of 1890.

† For list, membership, etc., see Massachusetts Insurance Commissioner's *Report*, 1891, Part II., p. lxiv.

the orders are co-operative, there might seem to be little inducement for any one to take the initiative in organizing a new order; but the inducements are by no means small. In the first place, the first endowments may be paid at very small cost to the recipients; and the organizers will of course take the first certificates. In the second place, the members of the orders, expecting to get large returns for small investments, are willing to pay heavy per capita taxes or special assessments for expenses; and these expenses consist largely of salaries of officers and clerks, many of whom, if one may judge from the general air of laziness which prevails in many of the offices, are superfluous. A few moments spent in the office of some orders almost lead one to believe that the *raison d'être* of these orders is the incapacity of their officers for other work. When we find, too, that thirteen of the leading Massachusetts orders, with an aggregate membership of 119,000, paid as fees to agents for the organization of new lodges in 1890 \$276,000,* we see that the possibility of having for one's self and one's friends the control over the expense fund of an order — even though that control be honestly and legitimately exercised — is likely to stimulate the establishment of orders and competition for membership.

A calculation of the possible future of endowment orders can be readily made. Let us assume extremely favorable conditions: that the order's claims for sick-benefits enable it to call for as many assessments as the state of the reserve fund makes advisable; that its sick-benefits are paid only to those whose certificates mature first, and therefore that no extra assessments are necessary; that it invests its reserve fund at 4 per cent. interest and that it gets 6 per cent. on sick-benefits advanced to members; that all assessments are paid at the beginning of the year; that its membership increases 50 per cent. each year; that the lapses are equivalent to a saving on matured certificates of 15 per cent., although it is but a five-year order. With assessments at \$5.00 and certificates of \$1,000 maturing in five years, we have the following annual conditions:—

* *Reports of the orders to the Insurance Commissioner of Massachusetts.*

<i>Year.</i>	<i>Membership.</i>	<i>Assessments.</i>	<i>Amount from Assessments.</i>	<i>Resources with Interest added.</i>	<i>Certificates matured.</i>	<i>Lapses.</i>	<i>Liabilities.</i>	<i>Balance.</i>	<i>Cost of Endowment.</i>
1	100	14	\$7,000						
2	150	14	10,500						
3	225	14	15,750						
4	338	14	23,660						
5	507	14	35,490	\$103,279	100	15	\$85,000	\$18,279	\$350
6	761	14	53,270	75,126	50	7	43,000	32,126	350
7	1,141	14	79,870	117,596	75	11	64,000	53,596	350
8	1,712	14	119,840	182,108	113	17	96,000	86,108	350
9	2,568	14	179,760	279,161	269	40	229,000	50,161	350
10	3,878	14	271,460	337,702	304	46	258,000	79,702	350
11	*3,878	14	271,460	368,720	455	68	387,000	-18,280	350
12	3,878	40	775,600	795,186	684	103	581,000	194,600	480
13	3,878	40	775,600	1,018,710	1,123	168	955,000	63,710	610
14	3,878	40	775,600	881,275	1,614	192	1,422,000	-540,725	740
15	3,878	40	775,600	246,619	455	68	387,000	-140,381	870
16	3,878	36	698,040	585,542	684	103	581,000	4,542	980

*Now suppose stationary membership.

So long as the increase of membership continues at the assumed rate, we find that the endowments cost but \$350, or \$70 a year. As soon as the growth of membership ceases, increasing liabilities — due to the increasing membership of former years — fall upon stationary resources; and, since there are 3,878 members to pay 3,878 endowments, the cost, aside from lapses and interest, must be \$1,000, or \$200 a year. Those whose certificates mature in the eleventh, twelfth, thirteenth, and fourteenth years, however, have contributed less than their share of the now stationary cost, and that cost is made up at the expense of those whose certificates mature in the fifteenth and sixteenth years by depriving them of a part of their gains from lapses and interest. After the sixteenth year it is plain that the cost need not increase, for there will be always 3,878

members to pay 3,878 endowments every five years; and, since no one will have escaped for less than his just share, no one need pay more than his just share.

If, however, the membership decreases,—*i.e.*, if new members do not come in so fast as the old members retire or lapse,—the cost of endowments may rise to a ruinous height. If, for example, no new members enter the order after the sixteenth year, those who remain until the twentieth year will have contributed at the rate of about \$160 for four years, and, then, in the last year must furnish all of the money for their own endowments, or about \$1,800 in all. The speculative and extremely hazardous nature of the endowment orders is thus evident. Since, too, the profits from lapses and from interest form so small a part of their resources, it is difficult to see why the orders which have a five-year or longer period of maturity denounce as speculative those which have a short period.

Another scheme for enabling people to get rich quickly is that adopted by the so-called “bond and investment companies.” Few, if any of them, are fraternal. They require bondholders to pay fees at regular intervals for division between their three funds, maturity or redemption, reserve, and expense. Bonds or certificates of each company are paid in numerical order as fast as the condition of the maturity fund allows.* If an order has five hundred members paying into the maturity fund five dollars each per month, twenty-five bonds of one hundred dollars each will mature each month. If the number of bondholders increases, more will be realized from fees, and bonds will mature more quickly. Since a rapid increase of membership for a short time would yield great profits to those whose bonds were by that increase soon matured, and would cause a much higher cost to the new bondholders if the rate of increase was not maintained, many companies provide a minimum cost, so that the holder of a bond which matures before that minimum has been paid in fees shall suffer to be deducted from the face of the bond the difference between the amount paid and the minimum

* For extracts from by-laws of a typical association, see Appendix B, p. 488.

cost. Other companies, for the same purpose, provide that no bond shall mature until after a specified number of months from the date of its issue.

The reserve fund is planned to equalize the cost of bonds; but, since the cost depends upon the increase of members,—a thing which no one can estimate,—its efficacy is a matter largely of chance. If, at any time, the cost of matured bonds rises, the directors can use the reserve fund, and thus bring the cost nearer the previous level; but, if the future growth of membership is such that the cost further advances, the reserve fund will in time become exhausted, and nothing will be available for preventing an indefinite rise in cost.

In the matter of lapses, the bond companies have an advantage over the endowment orders. Since their fees are periodical, they do not, as a rule, send notices. The lapse-rate is thus, of course, increased by the occasional thoughtlessness of bond-holders.

Another difference between the two schemes is in the probability of failure. An endowment order will practically fail if it cannot collect sufficient money to pay maturing certificates at the specified time. The bond companies, on the other hand, cannot fail: they have made no promise to pay anything at any specified time. Even though their treasuries were empty, and their numbers became stationary, they would fulfil every obligation; for their only agreement is that they will pay certificates as fast as the payment of fees furnishes the means. It is true that endowment orders can consistently with their contracts levy assessments as often as they need; but there are practical hindrances to the collection of such frequent assessments as would be sometimes necessary in order to extricate an order.

Though the fraternal death-benefit orders denounce the endowment orders, and the long-term endowment orders denounce the short-term orders, all of the orders unite in denouncing the bond companies. Yet all three of these sorts of organizations—death-benefit, endowment, and bond—are based upon the same mathematical truth: that ten men can pay five of their own number cheaper than five men can pay

themselves; and that the ten men will suffer no loss if they divide the cost of their own benefits with a sufficient number of new men. Unfortunately for the reputation of the bond companies, their plan is more obviously one of chance than those of their fellows.

The history of the endowment and bond movement is short. It may be said to have begun with the formation of the order of the Iron Hall in 1881. It did not reach large proportions until 1889. The success of the Iron Hall in making its first payments of seven-year endowments at very small cost seems to have opened the eyes of multitudes to the possibilities of this new sort of enterprise. During the next three years organizations modelled after the Iron Hall sprang up with great rapidity. At the end of 1889 twenty-two endowment orders were transacting business under Massachusetts law, and of these all but three had been organized during the year. At the end of 1890 the number had increased to fifty-six. After the legislature had forbidden the formation of new orders, May 28, 1890, an influx from other States began. By May, 1891, one hundred endowment orders from other States had registered with the Commissioner of Corporations, in order to do business in Massachusetts.* During the same period the bond and investment associations made their appearance, and more than one hundred such organizations were registered with the Commissioner of Corporations.† As, moreover, some organizations of this kind are not incorporated, the number doing business exceeds the number reported; but it is not likely that the excess is great. The growth of the endowment and bond organizations in other States has not yet been officially reported and can only be guessed at; but, since Massachusetts has been the hot-bed for them, it is not safe to estimate the business at the same proportions, even for the New England and Middle States, to which it is mainly confined.

The legal status of the endowment and bond associations it is at present impossible to determine. Suits are pending, hearings upon the granting of injunctions are going on, and legislative bills are awaiting action. In Massachusetts, for

**Legislative Documents*, 1891, House, No. 503.

† *Ibid.*

example, the charter of new endowment orders is forbidden;* issuing bonds upon the investment plan, either by Massachusetts or foreign corporations, firms, or persons, is forbidden;† but a bill forbidding endowment business to all orders which had not registered before May 28, 1890, has been referred to the next legislature for action. The executive of Maine, to give another example, has refused to grant further endowment or investment charters on the ground that the business intended is unlawful; but the legislature, on the other hand, has refused to prohibit the sale of bonds. Unless the organizations die a natural death,—as some have already done by failure in the cases of endowment orders, or by mutual waiving of contract in the cases of bond companies,—it is probable that much legislation and many judicial decisions will be necessary before the organizations will reach a clear legal position of any sort.

Since both the death-benefit and the endowment orders cite the experience of the English friendly societies,—such as the Order of Foresters and the Independent Order of Odd Fellows,—as proof of the permanent character of fraternal beneficial organizations, it is an interesting fact that the English orders are inclined to disavow all intention of giving members any advantage from growth of membership, except, of course, in the matter of reduced ratio of expenses. In 1870 the financial condition of the Manchester Unity of Odd Fellows, numbering 410,000 members, was examined. Upon the side of liabilities was placed the present value of all claims which, according to the experience of the preceding twenty-five years, it was estimated would be ultimately presented on account of present members. Upon the side of assets were placed the amount of money then in the hands of the order, and the present value of all payments which it was estimated that present members would make. There proved to be a deficiency; *i.e.*, the present members, if living out their expectation of life and continuing membership, would not, under the existing scale of contributions, pay enough to enable the order to pay expected claims when due. The lesson of this first valuation was partially learned; for at the second valuation, in 1875, it was found that most of the lodges had so

* Acts and Resolves, 1890, Chap. 341, Sect. 2.

† Acts and Resolves, 1891, Chap. 382.

far reformed their methods that the deficiency had been reduced about three-fourths.* In 1885, too, a writer in the *Foresters' Miscellany*, discussing the payment of funeral-benefits from assessments, said:—

Surely, there is nothing more destructive of dignity and independence than a system which teaches men to rely not on their own provision, but on the advent of "new blood," some of which is not even yet born. Let us imagine (if we can) a bank which invited depositors to join it, not in order that the money paid in might be saved for their use, but that it might be used to pay other and older depositors, and which offered as security for repayment the possibility of future depositors joining and allowing their money to be used for that purpose. Such an institution would provoke a public outcry; and yet it would but parallel the levy system.†

The friendly societies have in general adopted, or are adopting, a system of contributions practically similar in nature to life insurance premiums. The contributions vary with the age at which the member enters, but are unchanged during the member's life; and with the system of level contributions is coupled, of course, a reserve fund corresponding in nature to the reserve fund of premium life insurance companies.‡ The English friendly societies, we may say, then, seeing the danger that stares in the face our own death-benefit societies, have adopted the plan already suggested for our own societies, of seeking cheapness of insurance through careful and economical co-operative management.

A word ought to be said in closing, perhaps, upon the honesty of the canvassing methods adopted by the three sorts of organizations which we have been considering. Of the fraternal death-benefit orders it is true that they are not so careful to avoid deceiving as should be desired. One of them says upon the first page of one of its circulars, "It is not an insurance company," and to that extent seems to avoid deception. On another page of the same circular, however, under the heading "What it will cost to carry \$1,000," it assumes twenty-four annual assessments a year, and does not remind the reader

* *The Friendly Society Movement*, Rev. J. F. Wilkinson, London, 1886, pp. 89, 90.

† *Foresters' Miscellany*, June, 1885, p. 272.

‡ *The Friendly Society Movement*, p. 163.

that the cost so estimated is conditioned on a large increase in membership. Another order places at the head of one of its circulars these striking lines: "\$3.00 for \$1.00 a Certainty"; "\$1,000 for \$1.00 a Possibility." The logic by which it reaches the former conclusion is by a jump from "it is estimated" in one of the premises of the syllogism to "you will" in the conclusion. The orders seem very willing that possible members should deceive themselves. An unbiassed judge of an order would probably be forbidden by a sense of due proportion from descanting so fully upon possibilities as to forget to explain the conditions. It should be noted in this connection, perhaps, that, since the associations which limit their members to persons of particular trades, localities, or affiliations are not solicitors for general business, the charge of questionable methods cannot be made against them so reasonably, if at all.

The endowment orders seem more open to the charge of deception than the death-benefit orders. They show a greater forgetfulness in the matter of explaining conditions and of stating all the important facts, when citing historical examples. The bond companies seem to be no greater deceivers than the endowment orders.

None of these three kinds of institutions can be justly described as gambling, though all are speculative. In all of them, if no new members are added, the last members, after contributing for the benefit of others, must furnish all of the money for their own benefits; but, since the increase of membership is to great extent dependent upon the exertions of certificate-holders, the risk is not a gambler's risk. The only protection that the community needs against them is that deception shall be impossible. It is almost safe to say that, if no one could be at all deceived, all associations which give to present members the benefit of increasing membership—beyond the saving in expenses—would ultimately die. Many men love risk so much that they are willing to take the risk of ability to win new members; but, if they knew that the only new members whom they could win would be others who were willing to take the same risk for themselves, it is likely that progress would stop, and that co-operation in insurance and

endowments would confine itself to the legitimate field, of giving men benefits at that cost which would provide for the risk assumed upon each life, for the cost incurred upon each endowment, and for necessary expenses.

WILLIAM MORSE COLE.

APPENDIX A.

ARTICLE I.

Section 1. This body shall be known as the SUPREME LODGE OF THE ———, with power to make its own Constitution and General Laws for the government of the whole Order. Its decisions on all matters pertaining to the Order, and on appeals properly presented, shall be final.

ARTICLE II.

Section 1. The objects of the Order shall be to unite in the Bonds of Equity, Security, and Peace all acceptable persons of sound bodily health and good moral character, from ten years of age upwards.

Sect. 2. To establish a Benefit Fund, from which, on satisfactory evidence of the disability of its members who have complied with all the lawful requirements of the Order, shall be paid the sum of Ten (\$10) Dollars per week for the term of five weeks in one year; and a sum not exceeding One Hundred (\$100) Dollars at the end of one year. The amount paid for sick or other accident benefits to its members shall be deducted with six per cent. interest from the amount of their certificate.

Sect. 3. In the case of the death of a member in good standing, who has been a beneficiary member for thirty days, the heirs of said member shall be entitled to ten per cent. of the certificate, less benefits that have been paid, upon the surrender of the certificate, or they may continue to pay the dues and assessments to the Subordinate Lodge of which the deceased was a member, and be entitled to receive the benefits at maturity; but they shall not be entitled to any other benefits from this Order.

ARTICLE VI.

Section 1. The revenue of the Supreme Lodge shall be from Charter Supplies, individual charters and certificate fees, sale of supplies, printed matter, and from such assessments, not exceeding three, as may be called, according to law, to the General Fund for reasonably necessary expenses.

ARTICLE VII.

Section 1. Whenever the condition of the Supreme Treasury shall make it necessary to levy an assessment to pay Sick, Accident, and Maturity Benefits, the Supreme Secretary shall at once notify every Lodge to forward immediately to the Supreme Treasurer the assessment due from every member.

Sect. 2. Fifty per cent. of the amount on each assessment is set aside by the Supreme Treasurer as a reserve fund; and it shall be promptly turned over to and invested by the Supreme Trustees, and shall only be withdrawn therefrom by the consent of a majority of members of the Supreme Lodge.*

LAW III.

Section 1. When an assessment is made, it shall be the duty of the Secretary to at once notify every member liable to said assessment. . . . Any member who fails to pay the assessment within thirty days from the date of the call shall stand suspended.

Sect. 4. When the amount received for one assessment, less the reserve fund, shall equal an amount less than One Hundred Dollars, the sum to be paid shall in no case exceed the amount of one assessment, less the reserve fund, and the said amount shall be all that can be claimed by any one.

APPENDIX B.

ARTICLE XII.

The cost of the first certificate shall be three dollars, and any subsequent certificate two dollars; and a purchaser shall not be allowed to hold more than one certificate in each class† in both divisions except it be by assignment. Additional certificates may be issued every thirty days, subject, however, to the same restrictions as govern the first and subsequent certificates. Each applicant shall, after certificate has been issued, in addition to the cost of certificate, pay to the Secretary within thirty days after the first and fifteenth of each month, in Division 1, the sum of one dollar and twenty-five cents on

*The Supreme Lodge consists of the organizers of the order, and is in no sense controlled by the membership of the order at large. In this particular order the Supreme Lodge is nine in number. The objects mentioned in Art. II., Sect. 1, are accomplished in subordinate lodges.

†The class refers to the amount of the certificate, and the division refers to the frequency of assessments or periodic dues.

each certificate, and within thirty days from the first of each month, in Division 2, the sum of one dollar and twenty-five cents on each certificate. One dollar of each of the last two amounts named shall be carried to the maturity fund of the respective classes into which it was paid, and twenty-five cents to the general fund. Five per cent. of the above amount carried to the maturity fund shall be placed in the reserve fund, and can be used only to pay matured certificates at such time and number as shall be determined by the Board of Directors.

ARTICLE XIII.

Failure to make any of the payments on certificates, as prescribed in Article XII., shall work a forfeiture of all rights and privileges under said certificates; and all money paid shall be forfeited to the class and fund into which it had been paid, and the certificate shall be null and never reissued.

ARTICLE XIV.

When there is \$50 in class A, \$100 in class B, \$150 in class C, \$200 in class D, \$250 in class E, and \$300 in class F, paid into the maturity fund of these several classes in either Division 1 or 2, the subscriber holding the lowest numbered certificate in any of the above classes, in either Division 1 or 2, and has all assessments paid up to the date of such maturity, shall be entitled to the amount written in the certificate in such class, provided there has been paid in in assessments at least sixty per cent. of its face value; but, should the certificate mature before the sixty per cent. shall have been paid in, there shall then be deducted from the face value of the certificate the difference between the amount actually paid in in assessments and the sixty per cent. of the amount written in the certificate, and such amount shall cancel the certificate.